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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 001112

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SUBJECT: SPECIAL BUDGET POLITICS: NO PLAN TO SPLIT PACKAGE

Classified By: AIT Deputy Director David J. Keegan, Reason: 1.4 (B/D)

1. (C) Summary: National Security Council (NSC) officials denied March 11 press reports that the Ministry of National Defense (MND) is preparing to remove PAC-III anti-air systems from the special defense procurement budget package awaiting approval by the Legislative Yuan (LY). The Chen administration is prepared to accept a reduction in the overall funding-levels for the package, on the assumption that shortfalls can be made up through the regular annual budget cycles. However, NSC officials are adamant that they will resist calls from opposition legislators to restructure the substance of the package. In order to address USG concerns, MND Minister Lee Jye has agreed to clarify publicly and in writing to the USG that the government is committed to moving ahead during the current LY session on all three programs in the special defense procurement budget package. End Summary.

Bad Report?

2. (C) NSC aide Cmdr. Yu Hsiao-pin told AIT that March 11 media reports stating that MND Minister Lee Jye had agreed to move the PAC-III missile procurement program from the special budget currently under review by the LY into the regular budget cycle were inaccurate. Yu, following up to a March 11 AIT request for clarification, said that MND Minister Lee explained to the NSC on March 12 that the Taiwan media reports were the result of a miscommunication. According to Lee, during a March 10 press conference a reporter asked whether Lee supported the proposal by People First Party (PFP) Defense Committee Co-chair Lin Yu-fang to move the PAC-III anti-missile system portion of the special procurement budget into the regular budget cycle (Septel). This approach would entail breaking the package into parts, likely delaying the start of PAC-III procurement until the next regular MND procurement budget is submitted to the LY in two years. Lee told the NSC that he did not hear the question, and proceeded to close the meeting with his standard "that's it" (jiu shi zheiyang). According to Yu, the reporters apparently took Lee's comment as affirmation and proceeded to report the story accordingly.

3. (C) Yu contacted AIT a second time on March 15 to add further information. Yu said that NSC Deputy Secretary General Henry Ko urged Lee earlier in the day to clarify directly to the USG his commitment to keeping the PAC-III system in the special budget. Yu said that Lee asked the NSC to convey to AIT his agreement to make the following steps to ease possible USG concerns: 1) Lee will find an early public forum to publicly clarify his position on the PAC-IIIs; 2) MND will instruct TECRO to deliver a formal clarification to OSD/ISA Gen. Allen; and 3) Lee will sign a letter to DUSD Lawless committing MND to moving forward on the entire three-program special budget package.

All or Nothing

4. (C) Yu further clarified that the government is firmly against the idea of separating funding for the PAC-III launchers from the missiles. Yu said the government will move ahead on the entire PAC-III program -- launchers and missiles together -- as soon as it secures approval from the LY. Yu added that the Chen administration has also decided against revisiting the earlier "2.2" proposal to use the current special budget funds to only support the full PAC-III and P-3C programs and the design and planning stages of the submarine program. Under this proposal, a second special budget would then fund the remainder of the submarine program. Noting the difficulty of engaging Taiwan's LY, Yu stated that no one in the government wanted to try to submit a second special budget request two years in the future. As an aside, Yu asserted that it is President Chen Shui-bian who is most actively pushing submarine procurement rather than MND Minister Lee, despite Lee's submariner background.

5. (C) Yu acknowledged that the government is resigned to accepting significant cuts in the proposed funding levels for the special budget package, but insisted that they would compensate for these through out-year injection of funds from the regular budget. Yu acknowledged that moving any of the

three programs, but particularly the PAC-III system, into the regular budget cycle would result in a two year delay. For this reason, Yu said the government would reject demands by the Pan-Blue to fully move any of the three programs into the regular budget process.

Improving Coordination

16. (C) Yu endorsed AIT suggestions that the government use the March 14 PRC passage of the Anti-Secession Law to enhance its case for accelerated action on the special procurement budget, noting that the NSC has advised President Chen along similar lines. Yu noted that the MND, Executive Yuan (EY), and NSC have scheduled a lunch meeting on March 18 to formulate a PR strategy that will seek to leverage recent attention to the Anti-Secession Law. Yu expressed disappointment, however, over the government's weak coordination on special budget strategy, noting that the NSC asked to hold the meeting earlier, but was unable to assemble the key players before March 18. Yu also noted that coordination between the NSC, EY, and MND appeared to unravel while Ko and he were away from Taipei in early March. Yu said, however, that after his return, Ko instructed the various players on the issue to communicate more actively with each other. Yu said that MND and NSC are also eager to bring AIT more actively in on their LY strategy planning.

Comment: On Notice

17. (C) Even well-placed officials inside MND privately expressed suspicion that reports of Lee's endorsement for removing the PAC-IIIs from the special budget package may have been at least partially accurate. However, quick intervention by the Taiwan NSC and AIT appears to have put MND on notice that Washington is watching closely for any signs that elements within MND, especially those representing Navy interests, might try to sacrifice the PAC-III systems in order to secure early Pan-Blue support for the submarines. AIT has also let the PFP leadership know that we do not look favorably on Defense Committee Co-Chair Lin's proposal to delay action on procuring anti-missile systems that would address an immediate Taiwan defense need.

PAAL